Insurance Institute of Michigan

Insurance Institute of Michigan Position
Prohibit Employing Runner, Capper or Steerer/Michigan Basic
Senate Bill 298
As of January 24, 2012

The Insurance Institute of Michigan (IIM) supports Senate Bill 298, introduced by Senator Virgil Smith (Detroit), which would help fight insurance fraud and reach a resolution in a legal dispute over how Michigan Basic Property Insurance Association rates (MBPIA) are developed.

Insurance fraud is one of the most costly white-collar crimes in America, ranking second to tax evasion. The National Insurance Crime Bureau estimates that property/casualty insurance fraud costs Americans $30 billion annually. Adding other lines to the equation, like health, life and specialty insurance, the total cost of insurance fraud may exceed $100 billion each year.

Senate Bill 298 would outlaw the use of runners, cappers or steerers to fraudulently obtain insurance benefits. The terms runner, capper and steerer are used to describe a person who helps set up fake auto accidents or makes false insurance claims for theft rings, medical facilities or law firms.

Fraud may be committed at different points in the insurance transaction by individuals and organized fraud rings. Common fraud schemes include "padding" or inflating actual claims, misrepresenting facts on an insurance application, submitting claims for injuries or damages that never occurred or billing for medical services never rendered or unnecessary.

One fraud scheme that enlists the services of a runner, capper or steerer is the medical mill. Medical mills are organized criminal enterprises that attempt to defraud insurance companies and policyholders through unethical and fraudulent health care billing practices. They enlist insurance fraud perpetrators as patients who exaggerate or fake an injury, often claiming soft-tissue sprains and strains that are hard to disprove and do not appear on x-rays. These patients will commonly fake slip-and-fall accidents and other injuries.

Runners, cappers or steerers are also used to recruit passengers for participation in staged accidents. The staged accident occurs when an innocent driver is targeted for a collision. Bogus witnesses are positioned near the staged collision to support the criminals' account and contradict the innocent driver's testimony. The runner, capper or steerer directs or steers the "cooperating" passengers to an unethical attorney for legal representation. In turn, the attorney directs the passengers to unscrupulous medical providers that inflate medical billing or charge for non-existence injuries.

Cappers, runners or steerers can also show up at accident scenes with unsolicited advice for victims. Their motivation is to create business for the lawyer, doctor, repair shop or towing company. The capper, runner or steerer usually receives a portion of any insurance settlement.

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Insurance companies, policyholders, taxpayers and the general public pick up the tab for insurance fraud through increased insurance rates, higher taxes and inflated prices for consumer goods and services. Everyone pays the price for insurance fraud.

MBPIA

Michigan Basic Property Insurance Association (MBPIA), often called the FAIR Plan offers insurance to those consumers who cannot obtain property insurance through the regular market. Fair Access to Insurance Requirements (FAIR) Plans were formed in a number of states as a result of the riots and civil disorders that took place in many metropolitan areas during the 1960s. Currently, rates charged by MBPIA are equal to the weighted average of the top 10 voluntary market insurer groups.

Senate Bill 298 would require rates to be actuarially determined and calculated to generate a premium sufficient to cover the expected losses and expenses, subject to the following provisions:

- If the pool's actuarially indicated overall rate change were greater than 5% but less than or equal to 20%, the pool would have to take half of the actuarially indicated rate change amount.
- If the pool's actuarially indicated overall rate change were greater than 20%, the pool would have to take the full amount that exceeded 20%, plus 10%.
- If the pool's actuarially indicated overall rate change were less than 5%, the pool would have to take the entire indicated rate change amount.

The legislative change would resolve a lawsuit filed by MBPIA in 2009 after its rate filing was rejected by the Commissioner of the Office of Finance and Insurance Regulation (OFIR).

MBPIA won at the trial court but the favorable decision was overturned by the Court of Appeals on June 8, 2010. That decision was appealed to the Michigan Supreme Court.

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